Bounded Entrepreneurship and Internationalisation of Indigenous Chinese Private-owned Firms

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Abstract

Based on 16 in-depth case studies this paper argues that neither the Uppsala model nor the theory of international new ventures can explain effectively the internationalisation of indigenous Chinese private-owned firms. Instead, "bounded entrepreneurship" is proposed to interpret the unique internationalisation patterns and competitive positions of these firms. This explanation is incorporated into a framework of entrepreneurship which builds on existing theories and is sufficiently flexible to accommodate a range of conditions influencing a firm's internationalisation decisions.

Key Words: Chinese private-owned firms; Internationalisation processes; Bounded entrepreneurship.

1. Introduction

Over the past decade or so firm internationalisation has been the focus of a sizable international business literature. Among important developments in this research is the creation of a theory of international new ventures (INV) by Oviatt and McDougall (1994). This theory integrates transaction costs, corporate governance, entrepreneurship and the resource-based view of the firm to explain the phenomenon of international new ventures. While the INV is sometimes regarded as an alternative theory to Johanson and Vahlne's (1977) traditional Uppsala model, or process theory of internationalisation (PTI), Autio (2005) argues that the Oviatt and McDougall challenge represents "an important, self-sufficient complement to the PTI, because it mostly addresses aspects of the PTI that Johanson and Vahlne ignored, either explicitly or implicitly".

Empirically, various factors which may affect the internationalisation process have been applied in case- or survey-based studies. These include organisational learning (Anderson and Skinner, 1999), social or business networks (Chetty and Holm, 2000; Andersson, 2002; Chetty and Wilson, 2003; Coviello, 2006) or social capital (Yli-Renko et al. 2002), entrepreneurship (Anderson, 2000), international entrepreneurial/marketing orientation (Knight and Cavusgil, 2004), resource-based views (Westhead and Wright, 2001; Dhanaraj and Beamish, 2003), clustering (Maitland et al. 2005) and localised capabilities (Mariotti and Piscitello, 2001). Andersson (2004) suggests that whether any of the above factors is important depends on the firm's degree of internationalisation and whether the industry is mature or growing.

Whether theoretical or empirical, the research on the internationalisation process is overwhelmingly focused on firms from developed countries. For instance, all the studies quoted in the preceding paragraphs are on either European, North American, Australian or New Zealand firms. There is much less research on firm internationalisation from a developing country. Some exceptions are Tsang (1999, 2001) on Singapore firms in China; Ellis (2000) on both Australian and Hong Kong firms; Tyagi (2000) on Indian exporting firms; Child et al. (2002) on Hong Kong firms; Hashai and Almor (2004) on Israeli knowledge-intensive born-global firms; and Mathews (2006) on some Asia Pacific multinational corporations.

Since its adoption of the policy of economic reform and opening to the outside world in late 1978, China's economy has experienced very rapid changes, and its impact on the world economy has been increasingly felt (see e.g. Economist, 30 July 2005; Fishman, 2006). Related to this, the issue of internationalisation of Chinese firms has attracted much attention. For instance, there has been much recent media focus on high-profile international acquisitions and take-over bids by Chinese companies. These include the Lenovo-IBM, TCL-Thomson, as well as the aborted CNOOC-Unocal and Haier-Maytag deals (Economist, 3 September 2005 and 17 June 2006, Wu, 2005). In addition, Haier as a single case has been extensively studied (e.g. Liu and Li, 2002; Du, 2003; Palepu et al. 2005). The international expansion of these Chinese firms seems to "have dramatically shifted media attention from spotlighting China as a 'giant sucking vacuum cleaner' for global inward foreign direct investment to characterising the country as a cash-rich 'predator' embarking on a global buying binge" (Wu 2005).

In reality, these high-profile Chinese companies belong to a very small group of the so-called "national teams or champions" (Zeng and Williamson, 2003). We need to understand why and how ordinary Chinese firms go international. The current research focuses on indigenous Chinese private firms rather than these elite or state-owned enterprises for the following reasons. First, the elite firms publicised in the media are too exceptional to be representative of ordinary Chinese firms. Second, corresponding to their position in the domestic economy, the role of private owned firms in China's entering into foreign markets has been rapidly expanding. In 2003, the private sector was already responsible for 57% of value-added production by the non-farm business (Herd and Dougherty, 2005). While the share of exports produced by state-owned enterprises (SOEs) fell from 47% in 2000 to 26% in 2003, exports by domestic private enterprises nearly doubled in 2004 (EIU, 2006). According to China's Ministry of Commerce and State Statistical Bureau (2004), by the end of 2003, the share of outward FDI made by state-owned enterprises was 43%, but that of private and other domestic firms was 50%. Thirdly, the decision-making process in Chinese private firms has been much more influenced by market forces than that in state-owned enterprises, where there is still government intervention. Thus, to apply or test existing Western theories of firm internationalisation in the context of China, private firms as a sector would be a much more appropriate candidate than state-owned enterprises.

This paper is based on a comparative study of 16 indigenous Chinese private-owned firms. By an indigenous private-owned firm, we mean a firm owned by an ordinary individual who was brought up in the domestic environment. The paper argues that the existing individual theories cannot explain effectively the internationalisation processes and the competitive positions of indigenous Chinese private firms. Rather, so-called "bounded entrepreneurship" may be applied to this group of Chinese firms.

Yin (1989) suggests that case studies should start with theoretical propositions. In the next section we review the main theoretical propositions from both the PTI and INV. Section 3 explains our case study methods. Section 4 discusses why neither the PTI nor INV can offer a good explanation of the internationalisation behaviour of this group of firms. Section 5 attempts to develop an analytical framework of entrepreneurship into which the bounded entrepreneurship argument is incorporated. The unique feature of this framework is that it links the discussions of the conditions for a firm to be a early or late internationaliser, the entrepreneurial cognition of international business opportunities, the resource requirements for initiating internationalisation, the psychic distance and selection of foreign markets and entry modes, and the international competitive position of the firm. Finally, section 6 concludes.

2. Main Theoretical Propositions of PTI and INV

A wide range of factors have been identified for explaining firm internationalisation. As summarised in Andersson (2004), factor conditions, demand conditions, technological development, industrial structure, domestic rivalry, company strategy, market imperfections or transaction costs, psychic distance, organisational learning, networks, market potential, localisation advantage, managerial decisions, previous international experience of founders or entrepreneurs, age at international entry and risk management, are all believed to be relevant influences. On the other hand, most, if not all, of these influences are covered in either Johanson and Vahlne (1977, 1990) or Oviatt and McDougall (1994, 1995 and 1997). This explains why the roles of many of these influences are assessed or compared when the PTI and INV models are reviewed or further developed (see: Andersen, 1993; Forsgren, 2002; Chetty and Campbell-Hunt, 2004; Autio, 2005; Zahra, 2005; Zahra et al. 2005; Coviello, 2006). Given the wide coverage of the PTI and INV models, our literature review focuses on these two theories. We assess the main theoretical propositions of the PTI and INV models for the initiation and development of internationalisation and competitive positions of firms.

The underlying theories of the PTI are behaviour theory and theory of the growth of the firm. Its main ideas are that the process of firm internationalisation is the process of the firm's gradual acquisition, integration and use of knowledge about foreign markets and operations, and incrementally increasing commitments to foreign markets (Johanson and Vahlne, 1977, 1990). On the other hand, the INV model is based on transactions cost theory, entrepreneurship, the resource-based view of the firm and governance theories, and argues that the impact of technological, social and economic changes pushes firms into the international marketplace soon after the firms' inception. That is, firms do not have to follow the incremental pattern of internationalisation (Oviatt and McDougall, 1994; 2000). We discuss the following six aspects of firm internationalisation: external conditions for early internationalisation, entrepreneurial cognition of international business opportunities, resource requirement when internationalisation is initiated, psychic distance and selection of foreign markets and entry modes, competitive strategies of firms, and the relationship between the timing of internationalisation and firm performance. We believe that these are the main issues of firm internationalisation.

2.1 External conditions for early internationalisation

A firm's external environment includes its political, social, technological, economic and business conditions both at home and abroad. The PTI assumes that the domestic and foreign business environments are very different in terms of language, culture, business traditions and industrial development among others. Therefore, firms need knowledge, especially experiential knowledge about foreign business environments in order to make resource commitment decisions. The PTI model treats the lack of such knowledge as an important obstacle to the development of international operations (Johanson and Vahlne, 1977).

Oviatt and McDougall (1994, 1997) argue that changing economic, technological, and social conditions have reduced the transaction costs of multinational interchange, and increased the homogenisation of many markets in distant countries. As a result, the conduct of international business becomes easier to understand for everyone. Put another way, lessons learned in the domestic business environment can be easily leveraged for expansion in another country environment (Autio, 2005). Thus, it is possible for an entrepreneur to treat both the domestic and foreign markets as a single market, and start internationalisation upon inception. Following this logic, INVs should be more prevalent in sectors characterised by high degrees of international integration, although this has not yet been verified empirically (Autio, 2005).

Thus, from the PTI and INV model, we can make the following proposition: P1a: *The more closely linked and homogenised the domestic and international business environments are, the earlier the entrepreneur will initiate firm internationalisation.*

Related to P1a, if the domestic and foreign markets are highly integrated and homogeneous, then the performance of the firm's domestic and foreign operations will be very similar. Thus, we can have the supplementary hypothesis P1b: *The more closely linked and homogenised the domestic and international business environments, the more convergent the performance of the domestic operations and their counterparts on the international market.*

2.2 Entrepreneurial cognition of international business opportunities

Given that business opportunities may exist on both local and foreign markets (Zahra & Dess 2001; Zahra et al. 2005), why do some new ventures opt to go international from inception whereas many others decide to focus on their domestic markets? Is the decision to go international made at the firm or individual entrepreneur level? In the PTI, there is little role for an entrepreneur to play as the model is interested in the decision-making system rather than the individual decision-maker. In this system, it is not difficult to conduct domestic business, as "we can to a large extent rely on lifelong basic experiences to which we can add the specific experiences of individuals, organisations and markets" (Johanson and Vahlne, 1977). In foreign operations, however, the firm has to obtain such experiential knowledge incrementally through its activities in a particular country.

Consistent with our comparative case study, we hold that entrepreneurs play a very important role in firm internationalisation, as "internationalisation must be wanted and triggered by someone (Boddewyn 1988). Dunning (1988), Oviatt and McDougall (1994) argue that firms are international because they find advantage in transferring some moveable resources (e.g., raw material, knowledge, intermediate products) across a national border to be combined with an immobile, or less mobile, resource or opportunity (e.g., raw material, a market). This foreign location advantage distinguishes international from domestic business. However, Oviatt and McDougall (1994) also realise that a firm conducting transactions in a foreign country has certain disadvantages vis-à-vis indigenous firms, such as governmentally instituted barriers to trade and an incomplete understanding of laws, language, and business practices in foreign countries.

With the advantages and disadvantages of going international relative to focusing on the domestic market, an entrepreneur has to decide whether, when and how to enter foreign markets. As Zahra et al. (2005) indicate, some authors assume that entrepreneurs and managers are rational and well-informed. Following this logic, entrepreneurs can compare the cost and benefits and identify opportunities for leveraging their strategic assets in foreign markets. Others maintain that managerial cognition is rationally bounded and influenced by the business environment. Cognitive biases influence entrepreneurs' decisions. The entrepreneur's education, functional expertise and past track records of success and failure can significantly influence risk calculations and hence might determine how entrepreneurs define and evaluate opportunities in international markets.

The above discussion leads to our P2: *The choice between focusing on domestic and international business is determined by entrepreneurial cognition of relative advantages and disadvantages of internationalisation, which is in turn influenced by the entrepreneur's education, experience and environmental conditions.*

2.3 Resource requirements when internationalisation is initiated

Johanson and Vahlne (1977) indicate that an international activity involves a decision to commit current resources to a foreign operation. These resources include marking, organisational, personnel and other resources. The decision to commit resources is made in response to perceived problems and/or opportunities in the foreign market. This perception comes from experiential knowledge. The PTI is a dynamic model in which experiential knowledge as a dimension of human resources and market commitment of current resources affect both commitment decisions and the way current decisions are performed - and these, in turn, change market knowledge and commitment. The problem here is how to obtain experiential experience in the first place. It seems that the PTI does not "elaborate on how the process gets started, beyond noting that firms typically start the process as going concerns, often by reacting to unsolicited export orders" (Autio, 2005). This unsolicited export activity provides the firm with initial experiential knowledge.

As mentioned earlier, networks have in recent years been increasingly regarded as an important type of resource required for internationalisation. Johanson and Vahlne (1990) have extended their original PTI by explicitly incorporating industrial networks. They assume that network knowledge is part of market knowledge which is based on experience from current business activities, or current business interaction. The relationships of a firm can be used as bridges to other networks. These relationships can help the firm in getting inside networks in foreign countries. In some cases, business relationships can even force the firm to enter foreign networks (Johanson and Sharma, 1987). This is the case when the customer demands that the supplier follows him abroad. Johanson and Vahlne (1990) assume that direct or indirect bridges exist between firms and different country networks. Such bridges can be important both in the initial steps abroad and in the subsequent entry of new markets.

More importantly, Johanson and Vahlne (1990) are already aware from the existing literature that personal relationships and networks are especially important in turbulent, high technology industries (Laage-Hellman. 1989). They notice that some small high-tech firms go directly to more distant markets and set up their own subsidiaries more rapidly (rather than follow the traditional pattern of internationalisation) partly because the entrepreneurs behind these companies have networks of colleagues dealing with the new technology (Lindqvist, l988). Interestingly, it is this type of small firm that Oviatt and McDougall (1994) focus on and make use of to challenge the original PTI of Johanson and Vahlne (1977).

Based on the above discussion, the proposition of the PTI model with respect to the resources required when internationalisation is initiated is: P3 (PTI) *Firms need experiential knowledge to identify foreign opportunities and other resources to commit to foreign markets when they internationalise. In addition, for small high-tech firms, networks are important in the initial steps abroad, the subsequent entry of new markets, and shortening or skipping stages of internationalisation.*

By definition, an international new venture is “a business organisation that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries” (Oviatt and McDougall, 1994). Given the common lack of sufficient resources to control many assets through ownership, new ventures tend to internalise, or own, a smaller percentage of the resources essential to their survival than do mature organisations. These new ventures begin with a proactive international strategy. This feature challenges traditional theory that large size is a requirement for multinationality. So long as an organisation owns some assets or resources to exchange in an economic transaction, firm size is not required for an international new venture.

McDougall et al. (1994) argue that pre-firm experience of entrepreneurs is vital. Founders of INVs are individuals who see opportunities from establishing ventures that operate across national borders. They are “alert” to the possibilities of combining resources from different national markets because of the competencies (networks, knowledge, and background) that they have developed from their earlier activities. Following the logic of the resource-based view of the firm, the INV model argues that only the entrepreneur possessing these competencies is able to combine a particular set of resources across national borders and form a given INV.

Networks, as one of the indicators of founders’ competence, are also regarded as one of the four elements of the INV model. According to Oviatt and McDougall (1994), alternative transaction structures cover both hybrid structures and networks. Entrepreneurs have to depend on hybrid structures to control many vital assets, such as licensing, and franchising. However, they agree with Aldrich and Zimmer (1986) and Larson (1992) that an even more powerful resource-conserving alternative to internalisation for new ventures is the network structure. Networks depend on the social (i.e. informal) control of behaviour through trust and moral obligation, not formal contracts. With this type of governance, cooperation dominates opportunism because business and personal reputations are at stake that may greatly affect economic rent in and beyond a spot transaction.

Thus, the INV model has the following proposition regarding resource requirement when internationalisation is initiated, i.e. *P3 (INV): Only entrepreneurs who have developed competences such as networks, knowledge and background from their earlier activities are able* *to form INVs. So long as an organisation owns some assets to exchange in an economic transaction, firm size is not required for an international new venture.*

2.4 Psychic distance and selection of foreign markets and entry modes

As defined by Johanson and Vahlne (1977), the psychic distance is the sum of factors preventing the flow of information from and to the market. Examples are differences in language, education, business practices, culture, and industrial development. These differences lead to a lack of, and difficulty in obtaining market knowledge in international operations, and constitute the main characteristic of international, as distinct from domestic, operations.

The PTI model assumes that firms enter new international markets as a function of their psychic distance to the firms' prior experience. Firm internationalisation is seen as an incremental, risk-averse and reluctant adjustment to changes in a firm or its environment (Johanson and Vahlne, 1977, 1990). In terms of entry mode selection, firms typically "start exporting to a country via an agent, later establish a sales subsidiary, and eventually, in some cases, begin production in the host country" (Johanson and Vahlne, 1977). Put another way, this model assumes "sequential progression from low-control modes to high-control modes" (Autio, 2005).

Johanson and Vahlne (1977, 1990) also observed a similar successive establishment of operations in new countries. Specifically, the time order of such establishments was found to be related to the psychic distance between the home and the import/host countries (Hornell et al, 1973; Johanson & Wiedersheim-Paul, 1975). Typically, firms will start by entering neighbouring markets and later, as experience grows, more distant markets will be entered (Johanson and Vahlne, 1990).

Thus, from the PTI model, there is the following proposition: P4 (PTI): *Given psychic distance, firms develop their international operations in small steps. Typically, firms enter new markets with successively greater psychic distance and use entry modes with successively greater control.*

Oviatt and McDougall (1994) have challenged the PTI proposition. They argue that in the past, the slow speed of communication and transportation channels between countries inhibited the gathering of information about foreign markets and increased the perceived risks of foreign operations. However, in recent years, improved international communication and transportation along with the homogenisation of markets in many countries simplify and shorten the process of firm internationalisation. These changes "minimise the relevance of psychic distance during a firm's internationalisation" (Chetty and Campbell-Hunt, 2004). Thus, firms may skip stages of international development that have been observed in the past, or internationalisation may not occur in stages at all (Oviatt and McDougall, 1994). Therefore, the proposition of the INV model regarding the psychic distance and the size of internationalisation steps is P4 (INV)*: Technological and economic changes can minimise the psychic distance and shorten, simplify or skip stages of firm internationalisation.*

When discussing the selection of entry modes both the PTI and INV theory seem to focus on outward-oriented international business activities, i.e. exporting, licensing out, and setting up a joint venture or a wholly owned enterprise in a foreign country, whether the development pattern is incremental or leapfrogging. However, our comparative case study shows that there can be a "converse" pattern of internationalisation, e.g. a local firm establishes a joint venture in the home country before it starts its outward-oriented internationalisation process. Generally, there can be a two-way relationship between inward and outward internationalisation. This is consistent with Fletcher's (2001) argument that internationalisation is not just an outward-driven activity. Firms also become internationalised by undertaking import-led activities and activities in which ‘inward’ and ‘outward’ activities are ‘linked’, as happens with strategic alliances, cooperative manufacture and countertrade. Firms may develop their knowledge and resources on the home market and then start their outward internationalisation process, but they can also initiate inward internationalisation to make use of key foreign resources on the domestic market. Hence, we propose that *inward and outward activities can reinforce each other to accelerate the internationalisation process (P4).*

2.5 Competitive strategies of internationalising firms

There is no explicit discussion of what competitive strategy the internationalising firm should follow in the PTI model. Implicitly, the model focuses on the role of knowledge in keeping a fit between firm’s resource commitments and the characteristics of the foreign market in order to remain effective and earn long-run profits. This implication is based on Johanson and Vahlne’s (1977) argument that the internationalisation process can be seen “as the consequence of a process of incremental adjustments to changing conditions of the firm and its environment”. Clearly this view is consistent with traditional strategic management theory which calls for continuous strategic renewal to keep the firm in step with the shifting opportunities and threats in the environment (de Wit and Meyer, 2004). Thus, we can have the following proposition: *P5 (PTI): knowledge is required in the internationalisation process to keep the firm in step with its business environment*.

The INV model also pays special attention to knowledge as unique resources for international competitiveness. As mentioned earlier, firms conducting international business have certain disadvantages compared with indigenous firms. To overcome the advantages of indigenous firms in many countries simultaneously, private knowledge may be used to create differentiation or cost advantages for MNEs and international new ventures (Oviatt and McDougall, 1994). Thus, the INV model considers private knowledge to be the fundamental source of both differentiation and cost leadership strategies, although no explicit discussion is offered.

According to Porter (1985), the logic of the differentiation strategy requires that a firm choose attributes in which to differentiate itself that are different from its rival. By so doing the firm can expect a premium price. On the other hand, the sources of cost advantage may include the pursuit of economies of scale, proprietary technology, preferential access to raw materials, and other factors. Following such a discussion, we can propose *P5 (INV): knowledge is required in the internationalisation process for the firm to adopt a differentiation or cost leadership strategy*.

However, there can be other competitive strategies. In Porter (1985), a third strategy in addition to cost leadership and differentiation is cost focus which relies on the choice of a narrow competitive scope within an industry: in cost focus, a firms seeks a cost advantage in its target segment, while in differentiation focus, a firm seeks differentiation in its target segment. Furthermore, based on the Porter typology, we can also have a combined strategy of cost leadership and focus, as can be illustrated in the middle of the Porter generic strategy box.

2.6 Timing of internationalisation and firm performance

When commenting on the INV theory, Zahra (2005) argues that international business environments are characterised by the dynamism. It is important to investigate the conditions that encourage INVs to change their strategic directions, and to document the consequence of these changes for their survival and financial performance. This line of examination can be applied to the comparison of the PTI and INV theory. According to Autio (2005), one important implicit argument of the PTI is that late internationalisers are more likely to survive internationalisation moves than early internationalisers. Firms’ management is normally risk-averse, and firms typically tend to accumulate resources over time, so that survival chances are more likely to be enhanced if the internationalisation process is started late. On the other hand, McDougall et al. (1994) argue that early internationalisation may be not only an opportunity but also a necessity to ensure chances for growth, because opportunity windows are short in dynamic sectors. Thus, theory does not provide a clear relationship between the timing of internationalisation and firm performance. As a result, our *P6 is: The international business environment may or may not influence the survival or performance of early and rapid internationalisers and late and incremental internationalisers in different ways.*

The PTI and INV theory among other models are the theorisation of the internationalisation behaviour of different groups of firms in developed countries for different time periods. This paper is interested in whether the validity and efficacy of these models are limited to firms in the developed world or whether they can be extended to explain firm internationalisation in developing countries. Particularly, we are interested in whether these models can be used to explain effectively the internationalisation process of indigenous Chinese private firms. If not, we need to either modify them or develop a different theoretical framework.

3. Research Methods and Sample Firms

Our main research question is why and how indigenous Chinese private firms internationalise. As Yin (2003) indicates, this type of question favours the use of case studies. Furthermore, given the possible problems of defining INVs in terms of age, case studies will be appropriate for finding out whether a firm truly began its internationalisation from inception or it simply resulted from a restructuring of an existing firm which had already established competences and international business networks. Therefore, we carry out a comparative case study of 16 indigenous Chinese private-owned firms to see whether the existing main theories still hold in this transition economy. We first provide some background information.

Most indigenous Chinese private firms grew out of market demands and responded to market forces. These firms are now widely spread over China, and particularly concentrated in coastal areas such as Zhejiang, Jiangsu and Guangdong. Shi (2006, page 1) points out that Chinese private firms share some common characteristics: under the planned economy they had to open up their own space for existence and development; under the transition from the planned to market economy, they have to rely on their own strengths to participate in market competition as they are not helped by the government. This environment has put indigenous Chinese entrepreneurs at a disadvantage, but made them more market oriented and entrepreneurial. This explains why we focus on the internationalisation process of this group of firms.

3.1 Selection of cases

Given our focus, we selected firm cases using a theoretical sampling frame. Theoretical sampling means seeking samples of populations, events, and activities guided by the researcher's emerging theory (Glaser and Strauss 1967). While we expected indigenous Chinese private firms to behave differently in terms of their internationalisation strategy to firms from other countries, we realised that there was heterogeneity within this group of Chinese private firms in their approaches towards, and speed, breath and depth of, internationalisation process. In order for our sample to be as representative as possible, we adopted a similar method to that of Pettigrew (1990) and Peng (1997) and chose firms of “polar type” in terms of their industry, geographic location, years of business, and degree of internationalisation (number of foreign countries/regions with which the firm has conducted business). Furthermore, following Eisenhardt (1989) we chose multiple cases within roughly each category to allow findings to be replicated within categories. Thus, if common patterns of internationalisation emerge from different types of firms within this private section of the Chinese economy, then our findings would be more generalisable.

The basic characteristics of the final sample of 16 firms are presented in table 1. As column 2 shows, the sample firms are in a variety of industries, covering machinery, electrical and electronics, automobiles, chemicals, agricultural, telecommunications and textiles and garments. While it is difficult to judge whether an industry as a whole is knowledge-intensive or not, if a firm is assigned a "Y" in column 3, it means that this firm has been awarded the title of "High and New Technology Enterprise" at least at the provincial level. This means that the firm is engaged in businesses in a high-tech section of the industry by Chinese standards. The sample firms are located in Zhejiang and Jiangsu Provinces. In terms of the year of official launch, firm 5 was established as early as 1969, while firms 7, 9 and 13 in 2000. Significant differences exist in the degree of internationalisation: it varies from 1 to more than 100. The final column shows that the majority of interviewees are the firm founders, and the remaining are those who are very close to the founders. In three cases where the interviewees who were not founders were unable to answer several particular questions on the initiation of internationalisation, alternative appropriate senior managers were identified and second interviews were conducted via telephone.

Table 1: Basic Profiles of the Sample Firms

Firm Code	Main Products	Knowledge Intensive ?	Location	Year of Registration	Degree of Int'lisation	Interviewee
F1	Special Machinery	Y	Zhejiang	1997	4	Founder, President
F2	Electrical Compliances	N	Zhejiang	1996	6	Founder, General Manager
F3	Industrial Valves	Y	Zhejiang	1995	9	Founder, President
F4	Bearing	Y	Zhejiang	1994	1	Founder
F5	Auto Components	Y	Zhejiang	1969	>50	Assistant General Manager
F6	Chemicals & Agricultural Products	Y	Zhejiang	1986	3	Assistant to President/Founder
F7	Semiconductor	Y	Zhejiang	2000	9	General Manager
F8	Communication Equipment	Y	Zhejiang	1987	3	Assistant to President/Founder
F9	Electronics	N	Zhejiang	2000	1	Founder, President
F10	Metrological Instruments, Medicine & Telecom	Y	Zhejinag	1994	> 20	Manager – Foreign Trade
F11	Textiles	N	Jiangsu	1994	7	Deputy General Manager
F12	Textiles	N	Jiangsu	1992	6	Founder, President
F13	Textiles	N	Jiangsu	2000	5	Founder, President
F14	Textiles & Garments	N	Zhejiang	1979	>100	Deputy Manager - Enterprise Management
F15	Textiles	N	Zhejing	1998	5	Deputy Management
F16	Special Machinery	Y	Zhejiang	1975	>50	Chief Engineer

3.2 Data collection and analytical methods

We collected data mainly from in-depth interviews supplemented with archives to "provide stronger substantiation of constructs and hypotheses" (Eisenhardt, 1989). The archives were obtained from company reports, press as well as company websites. The time length for an interview was between 1.5 and 2.5 hours. Interviews were type-recorded unless the interviewees objected. To ensure the accuracy of the interview data, we not only checked the factual information and opinions provided by the interviewees against the archives, but also asked some important questions in alternative ways to see whether the answers were consistent. As suggested by Eisenhardt (1989), we also made use of multiple investigators in the majority of our interviews to increase the likelihood of capitalizing on any novel insights which may be in the data and enhance the creative potential of the study. All interviews were conducted during June, July and August, 2006.

The analytical method designed for this study was consistent with the analytical induction as applied in Yan and Gray (1994). We constantly compared the main propositions from the existing theories of firm internationalisation as highlighted in the previous section with our multiple, typical cases to test, extend or refine existing theories. While the interviews were conducted in line with a pre-designed protocol based largely on existing theories and particularly on the six pairs of propositions, open questions were often asked to allow for possible theoretical modification. As the existing theories have grown out from experiences of firms from developed countries, they may well be challenged by the experience of firm internationalisation from a developing country setting.

4. Internationalisation Behaviour of Indigenous Chinese Private Firms

4.1 External conditions for early internationalisation

To examine the relationship between the early internationalisation and the degree of integration/homogeneity of the domestic and foreign markets we asked whether the founder agreed that the domestic and foreign markets were seen as a single integrated market for the firm. We used the 7-point Likert scale with 1 indicating "strongly agree" and 7 meaning "strongly disagree". As the final column of table 2 shows, 6 out of 16 firms strongly agreed but the same number of firms strongly disagreed. The remaining 4 firms fairly agreed. However, when we tried to link the ratings to early internationalisation, we had a general problem of defining an international new venture.

Table 2: Initiation of Firm Internationalisation

Firm code	Founder starts relevant business	First Int'l Activities	Proactive or Passive	Official Firm Launch	First Int'l Activities After Launch	Proactive or Passive	Founder Educat'l Backgrd at Official Launch	Founder Int'l Experi at Official Launch	Market integration
F1	1985	2004 (Exp)	Passive	1997	2004 (Exp)	Combine	Sec Sch	No	7
F2	1989	1992 (Exp)	Passive	1996	1996 (Exp)	Proactive	Sec Sch	Yes	1
F3	1993	1997 (Exp)	Combine	1995	1997 (Exp)	Combine	Sec Sch	No	7
F4	1987	1995 (Exp)	Passive	1994	1995 (Exp)	Passive	Sec Sch	No	7
F5	1969	1984 (Exp)	Proactive	1969	1984 (Exp)	Proactive	Sec Sch	No	1
F6	1986	1994 (Imp)	Combine	1986	2000 (Exp)	Combine	Illiterate	No	7
F7	1956	1989 (Exp)	Passive	2000	2001 (Exp)	Proactive	Univ	Yes	1
F8	1987	1993 (Tec Licence in)	Combine	1987	1999	Passive	Sec Sch	No	3
F9	1968	1992 (Process)	Combine	2000	2002 (Exp)	Proactive	Sec Sch	Yes	3
F10	1970	1998	Proactive	1994	1998 (Exp)	Proactive	Sec Sch	No	2
F11	1994	1996 (Imp)	Proactive	1994	1998 (Exp)	Passive	Sec Sch	Yes	2
F12	1992	1993 (Imp)	Proactive	1992	1994 (Exp)	Passive	Sec Sch	Yes	7
F13	1986 (DTrade)	1998 (FTrade Office)	Proactive	2000	2001 (Exp)	Passive	Sec Sch	Yes	7
F14	1979	1990 (JV)	Proactive	1990	1991 (exp)	Proactive	Sec Sch	No	1
F15	1998	2000 (Tec-co)	Proactive	1999	2003 (Exp)	Proactive	College	Yes	1
F16	1966	1980 (Exp)	Proactive	1975	1985 (Exp)	Proactive	Primary	No	1

Age is normally used to define an INV (Oviatt and McDougall, 1994). However, Zahra (2005) suggests that this definition is controversial because some ventures go through a long period of gestation before they are officially launched; because some new firms are spun off by existing companies, having benefited from the resources and deep pockets of their parent corporations, including their networks, established systems, and well-recognised names, or because some other new ventures are created through the restructuring of existing firms. Our study confirms Zahra's concern.

A comparison of columns 2, 3 and 5 of table 2 reveals that as many as 11 firms had started somewhat related businesses and some of them initiated their internationalisation processes before their formal launch. It is then very difficult to define the exact starting time of a new venture's existence and the pre-firm internationalisation experience. A typical example is F7 which started its semi-conductor business as early as 1956. The firm experienced a series of organisational restructuring and product updating, and started exporting in 1989. F7 was formally launched in 2000 when it was officially spun off from the original firm, and exported to the same markets from 2001. If we treat the pre-2000 activities as the firm's pre-business and international experience, then this firm can well be defined as an INV. But is 2000 really the exact starting time of this firm's existence? If we treat such a firm as an INV, we may exaggerate the prevalence of INVs.

If we examine columns 3, 6 and 10 of table 2, we cannot confirm a significant relationship between the perceived market integration and early internationalisation or determine whether it is a pre-formal firm launch or after-formal firm launch, as some firms agreeing that the domestic and foreign markets were integrated into one did not initiate their internationalisation early while other firms disagreeing with the statement started their internationalisation relatively early. These firms felt that although market integration in general promotes early internationalisation, many other external factors influenced the founders' market selection decisions.

For instance, under the state export trading monopoly before the late 1980s, F5 as a private firm was unable to exhibit its products on the Guangzhou Trade Fair which was the most important means for state-owned firms to directly export their products. Instead, the firm displayed its products just outside the exhibition hall. It eventually successfully found its business partners and exported its products for the first time in 1984. The domestic institutional barriers presented F5 from early internationalisation although it saw the whole world as a single market for itself.

Another example is F12. It seems contradictory for the firm to be an international new venture (in terms of age) when it disagreed that the domestic and foreign markets were integrated as one. It proactively imported advanced machinery to produce quality products for the domestic market which had great potential. It then passively exported the products to Asia and Europe and "accidentally" continued its internationalisation process. "Whatever internationalisation strategy you use, your ultimate purpose is to earn profits", the founder commented.

4.2 Entrepreneurial cognition of international business opportunities

From table 2, indigenous Chinese entrepreneurs are not well educated, as their average education is just to secondary school level. Very few of them had knowledge about foreign languages or international experiences before they initiated internationalisation. In addition, they have been constrained by institutional arrangements like F5. The combination of this special business environment and the founders' educational background has led to our key argument of "bounded entrepreneurship" for firm internationalisation from China. This is consistent with the sociological view that entrepreneurs are embedded in a social context and the interaction between entrepreneurs and their environment plays a major role in shaping their cognitive process, and, consequently, behaviour (Zahra et al, 2005).

With the bounded rationality but facing a relatively large domestic market size, indigenous Chinese entrepreneurs tend to pay relatively more attention to the domestic market. As table 3 shows, 7 entrepreneurs agreed that there were only limited channels for information on foreign business opportunities, and another 2 entrepreneurs did not even bother to actively seek foreign opportunities. Five of them did not have any strategic plan for internationalisation. They felt that an increase in internal resources would eventually lead to internationalisation. Their typical argument for focusing on the domestic market was that "so long as we work harder to become number 1 in China, there is no problem for us to go international". They did not realise that internationalisation could also enhance their firms' internal resources.

Table 3: Internal Resources and Internationalisation

Firm code	Limited information for foreign opportunity?	Internal resource leading to internationalisation?	Strategic plan & resource commitment to internationalisation?
F1	Pay little attention to foreign opportunity	Internal resource → Internationalisation	No plan; Focus on domestic market & go international in future
F2	Yes	Internationalisation → Internal resource	Plan, and R&D commitment
F3	No	Internal resource ↔ Internationalisation	Plan, HR commitment.
F4	Pay little attention to foreign opportunity	Internationalisation → Internal resource	No plan. Focus on domestic market
F5	Obtaining information from various sources	Internal resource ↔ Internationalisation	Detailed plan.
F6	Yes	Internal resource → Internationalisation	Rough plan; Product features demand us to focus on domestic market
F7	Obtaining information from various sources	Internal resource ↔ Internationalisation	Plan.
F8	Obtaining information from various sources	Internal resource ↔ Internationalisation	Initially no. Now detailed plan; HR commitment
F9	Yes	Internationalisation → Internal resource	No plan; only some slogans
F10	Yes	Internal resource ↔ Internationalisation	Detained plan
F11	No	Internal resource ↔ Internationalisation	Plan, HR commitment
F12	Obtaining information from various sources	Internal resource ↔ Internationalisation	No detained plan
F13	Yes	Internal resource → Internationalisation	No plan, focus on domestic market first.
F14	Obtaining information from various sources	Internal resource ↔ Internationalisation	Detailed plan; Sufficient HR and financial commitment
F15	Yes	Internationalisation → Internal resource	Detailed plan; Sufficient HR and financial commitment
F16	Yes	Internal resource ↔ Internationalisation	Detailed plan; Sufficient HR and financial commitment

The remaining firms said that they could find sufficient information on foreign business opportunities. Most of them also felt that there was a two-way relationship between internal resources and internationalisation, but they learnt this gradually in the internationalisation processes.

4.3 Resource requirements when internationalisation is initiated

From table 4, the sizes of the sampled firms vary in terms of the number of employees and annual sales when they internationalised for the first time, ranging from only 15 employees with sales of 1 million yuan (about 125,000 US dollars) to 2000 employees with sales of 1.8 billion yuan (about 0.225 billion US dollars). This means that size is not an important determinant for a firm to internationalise for the first time.

Table 4: Firm Resources When Internationalisation

Firm Code	No. of Employees	Experience of founder	Annual Sales	Importance of Business Network	Leading technology by Chinese standards	Leading by Tech world	Innovation for Internationalisation	Resource allocated to R&D	Lowest in Price Industry
F1	120	No	3m	No	6	7	7	2	7
F2	15	No	1m	No & Y (Friend's introduction)	7	7	7	7	4
F3	25	No	4.5m	Yes – Local supply chains	7	7	7	7	4
F4	300	No	3m	No	2	6	2	2	4
F5	NA	No	NA	No	2	6	1	1	1
F6	1200	No	1bm	Y & N	1	2	1	1	7
F7	80	No	3.5m	No	1	6	1	1	7
F8	200	Yes	NA	Y – Firm networks	4	5	2	3	6
F9	200	No	10m	No	3	5	2	4	6
F10	2000	No	1.8bm	No	3	5	2	4	4
F11	1000	No	25m	No & Y (Industrial cluster)	6	6	6	6	6
F12	550	No	50m	No & Y (Industrial cluster)	7	7	7	7	5
F13	200	No	100m	No & Y (Industrial cluster)	NA	NA	NA	NA	NA
F14	NA	No	NA	No	1	1	1	1	7
F15	2000	Yes	100m	No	5	5	1	1	4
F16	NA	No	NA	No	1	3	1	1	2

Notes: (1) From column 6 "Leading Technology at Home" to column 8 "Lowest Price in Industry", the values in the cells are the seven-point Likert scores with 1 being "strongly agree" and 7 being "strongly disagree". (2) NA = The interviewee was unable or unwilling to provide the information.

All the founders except two had no pre-firm internationalisation experience when their firms internationalised for the first time. Although the PTI and INV theory treat experiential knowledge or pre-international experience as one important resource for firm internationalisation, the Chinese evidence does not seem to provide any support.

Furthermore, although the majority of the sample firms understood the importance of innovation for internationalisation and allocated resources to R&D, and although some firms regarded their technologies as the leading ones at the home market, few claimed that they possessed leading technologies by world standards. In general, their prices were not the lowest in their respective industries. As a result, they had neither differentiation nor cost leadership advantage.

Turning to networks, F3 and F8 indicated that local supply chains and firm business relations played important roles in firm internationalisation. The founder of F3 said, "if we order a component during the day time, it can be delivered locally in the night. Thus, we can catch up with shipping dates".

Interestingly, both F2 and F6 felt that networks could be both important and unimportant. The founder of F2 conducted his very first export activity via a recommendation by a friend. But he argued, "social networks are not as important as entrepreneurship because the latter has to exploit this opportunity". F6 expressed a similar view: "the most important determinant was the entrepreneurship, i.e. the spirit of exploring and exploitation. To initiate a project you have to rely on entrepreneurship. Networks are needed to propel company progress, but they do not come out of thin air. Because you are at work, the networks are gradually established". Finally, although F11, F12 and F13 did not think that networks were important for their internationalisation, they did not actually realise that they were operating a local industrial cluster which facilitated their acquisition of information about foreign markets. Most sample firms did not think that networks were important for their internationalisation.

Thus, the information in table 3 suggests that firms do not have to have pre-firm internationalisation experience, sufficient resources or business networks to internationalise. The evidence of indigenous Chinese private firms supports neither the PTI nor the INV theory.

Table 2 shows that 4 out of the 16 firms did start their internationalisation process by reacting to unsolicited export orders. For instance, F2 started family business in small electrical compliances with three workers in 1989. This was only one of many small firms specialised in the industry in a small town, a well known production base for the compliances. In 1992, a friend introduced an Indonesian businessman to F2, and the firm started exporting in the same year. Quickly, it became a firm exporting all its products. F4 and F7 also passively internationalised in similar ways.

Four firms in the sample were driven into international markets for the first time by a combination of both passive and proactive ways. For instance, F3 was approached by a state trading company for a possible export opportunity in Southeast Asia. Following this, F4 quickly prepared leaflets and distributed them by stealth at the Guangzhou Trade Fair where only approved state-owned firms were allowed to display their samples. In the same year, F3 started exports. The remaining 8 firms proactively pursued their internationalisation processes. As mentioned earlier, F5 was a typical example of a proactive internationaliser.

Therefore, our evidence indicates that the first proposition of the PTI only applies to some of the private firms in China. Most firms either proactively initiated their internationalisation process or were driven into the foreign market by a combination of a proactive and passive ways.

4.4 Psychic Distance and Selection of Foreign Markets and Entry Modes

Table 5 Time Order of Market and Entry Mode Selections

Code Firm	Founder's First International Activities	First International Activities After Launch	Second International Activities after Launch	Third International Activities after Launch	Fourth International Activities after Launch	Orderly Internationalisation
F1	2004 (Export, Libya, Japan)	2004 (Export, Libya, Japan)	2005 (Export, Romania)	2006 (Export, Romania, HK)	-	No
F2	1992-95 (Export, Indonesia)	1996 (Export, Egypt)	1997 (Export, Syria)	1998 (Export, Argentina)	1999 (Export, United Arab Emirates)	More or less yes
F3	1997 (Indirect Export, Malaysia)	1997-98 (Indirect Export, Malaysia, Thailand)	1999 (Indirect Export, UK)	2001 -04 (Export, USA, Taiwan, Italy, Portugal)	2005 (Export, Germany)	Yes
F4	1995 (Indirect Export, USA)	1995 (Indirect Export, USA)	2000-01 (Trading Office in USA)	Since then, Export via the Office to USA	-	Yes
F5	1984 (Export, USA)	1984 (Export, USA)	1992-94, (Subsidiary, USA)	Since then, Export, worldwide.	Since then, JVs, subsidiaries, worldwide	Yes and no
F6	1994 (Import, USA); 1996 (Tech Licence in, Japan)	2000 – 2001 (Export, Southeast Asia, Germany)	2002 (JV, Japan)	2004 – (Processing Trade, Japan)	-	More or less yse

F7	1989 (Indiret Export, Taiwan); 1996 (Export via Agency in USA, USA)	2001 (Export, via Agency in USA, to USA and Canada)	Since 2005 (Export, Singapore, USA, Japan, South Korea, Malaysia)	Since 2005 (Import, Raw Materials from USA, Japan, Germany)	-	Yes
F8	1993 (Tec Licence in); 1998 (JV, Japan)	1999 (Export, USA	2001 (Export, North America; Japan)	2004 (M&A, Hong Kong)	-	No
F9	1992 (Processing Trade, Japan)	Since 2002 (Export, Japan)	-	-	-	Yes
F10	1998 (Export, Thailand)	1998 (Export, Thailand)	2000 (Subsidiary, Thailand)	2001-02 (Export, South America)	2003 (Subsidiaries, Argentina, India)	More or less yse
F11	1996 (Import, Machinery from Japan); 1997 raw materials from South Korea and Taiwan	Since 1998 (Export, Middle East, Southeast Asia)	2002 (Import, Machinery from Japan, Germany)	2005 (Tech R&D with Japan and Germany)	-	Yes
F12	1993 (Import, Machinery from Japan & Europe)	Since 1994 (Export, South Korea)	Since 2005 (Export, USA, South Korea, Japan, Middle East, EU)	-	-	Yes
F13	1998 (Foreign Trade Office); 2000 (Import, Materials from South Korea and Taiwan & Machinery	Since 2001 (Indirect and Direct Export, Viet Nam, South Korea, Italy, Portugal)	-	-	-	Yes
F14	1990 (JV, Macao)	1991 (Export)	1997 (Business links with HK and Japan for market development	2004 (JV with Japan; Subsidiary in USA)	2005 (Tech & marketing co-op with Japan and Italy	No
F15	2000-01 (Tec Co-op Japan)	2002 (JV, Japan)	2003 (Export, Japan)	2005 (Export, USA, HK, India	Considering (Subsidiary, Pakistan)	No
F16	1980 (Export, Southeast Asia)	1981 (Import)	2000 (JV with HK)	2002 (Tech co-op with Germany)	-	More or less yes

As table 5 shows, the majority of the sample firms entered foreign markets more or less with successively greater psychic distance, and used the entry modes more or less with successively greater control, i.e. indirect exports (if any), trading agencies (if any), direct exports or foreign direct investment (joint venture or wholly owned subsidiary). This orderly internationalisation process of these firms seems to be consistent with the PTI. This also reflects indigenous Chinese entrepreneurs' bounded rationality. However, once these firms initiated the internationalisation process, their paces seem to be higher than what the theory may suggest: they quickly expanded into different foreign markets rather than by doing this in small steps. They were able to learn very quickly by doing.

However, the table also indicates that some sample firms did not follow this orderly process. F1, for instance, went into Libya two years earlier than into Hong Kong and it is obvious that the psychic distance of mainland China with Hong Kong is much smaller than that with Libya. F5 established a wholly owned subsidiary before it established joint ventures and it is clear that a subsidiary involves greater control than a joint venture. Similar to F5, some firms such as F8, F14 and F15 formed joint ventures before they started exporting. These are not the examples of the shortened or skipped internationalisation process as both the PTI and INV theory observe. Rather, they follow an inverse order of internationalisation.

We can also notice from table 5 that F6, F9, F11 and F12 started their internationalisation by imports. This seems to be consistent with traditional theory as importing is often regarded as a lower order of internationalisation. However, what these firms imported included machinery and possibly raw materials, together with technical guidance from the suppliers. Like using JVs, they started inward internationalisation to learn both technology and managerial and marketing skills, and then began outward internationalisation.

4.5 Competitive strategies of internationalising firms

Table 6: Sources of International Competitiveness

Code Firm	Risk averse	(Opportunit	leading technology by Chinese standards	leading technology by world standards	high-quality products difficult to imitate	lowest-price products	Main reasons for your internationa l success
F1	Yes	No	Yes for some products	Yes for some products	Yes for some products	No	Brand name
F2	No	Yes	No	No	No	No	Reputation; Quality & Business relations
F3	Yes	No	Yes for some products	Yes for some products	No	No	High ratio of quality/function to price
F4	No	Yes	No	No	No	No	High ratio of quality/function to price
F5	No	Yes	Yes for some products	Yes for some products	Yes for some products	No	High ratio of quality/function to price
F6	Yes	No	No	No	No	No	High ratio of quality/function to price
F7	Yes	No	Yes	No	No	No	High ratio of quality/function to price
F8	No	Yes	Yes for some products	No	No	No	High ratio of quality/function to price
F9	Yes (Initially)	Yes (Now)	Yes	No	No	No	High ratio of quality/function to price
F10	Yes	No	No	No	No	No	High ratio of quality/function to price
F11	Yes	No	Yes	Yes (developed world left industry)	Yes	No	Quality
F12	Yes	No	Yes for some products	Yes for some products	No	No	High ratio of quality/function to price
F13	Yes	No	Yes for some products	No	No	No	High ratio of quality/function to price
F14	Yes	No	Yes	Yes for some products	No	No	High ratio of quality/function to price
F15	Yes	No	Yes	No	No	No	High ratio of quality/function to price
F16	No	Yes	Yes	No	No	No	High ratio of quality/function to price

From columns 2 and 3 of table 6, most firms in the sample tended to minimise differences between their existing scope of activities and new market entries and only a few firms proactively maximised the size of market potential by selecting the markets with greatest growth potential. The evidence indicates that most Chinese firms are risk averse rather than opportunity seeking when internationalising. This seems to be consistent with the PTI where knowledge is used to keep the firm in step with the foreign business environment.

To see whether technological knowledge was used to maintain competitiveness by differentiation, we asked the sample firms to assess their technology and quality standards and their answers are summarised in columns 4-6. The technologies used for at least some of their products in most of the sample firms were advanced by Chinese standards. Their claims are confirmed as these firms were awarded the "high-tech new firm" title by the Chinese authorities mostly at the national level. However, much fewer of them claimed that their technologies were advanced by world standards. Even if they so claimed, they admitted that these technologies were only for a very limited range of products, and more importantly, for those products which developed countries were no longer interested in producing. The latter category includes textiles, garments and plastic machinery.

Cost leadership is another competitive strategy identified by Porter (1985). However, column 7 of table 6 indicates that cheap price alone is not the means for these Chinese firms to keep competitive on the world market, as only one firm claimed that its price seemed to be the lowest in the industry. Instead, the majority of the firms indicated that their fundamental source of international competitiveness was a high ratio of quality/function to price. As the interviewee from F5 indicated, "internationally, some firms provide better-quality products and others offer lower prices than we do. We can only say that our ratio of quality/function to price is the best". Chinese firms replied on a combination of reasonable quality and relatively low price to compete on the world market, rather than pursuing a pure differentiation or cost leadership strategy.

4.6 Timing of internationalisation and firm performance

Table 7 Timing of internationalisation and firm performance

Firm code	Founder starts relevant business	First Int'l activities	Time lag for first int'l activities	Satisfactory foreign sales	Satisfactory pre-tax profits	Leant advanced tech & man skills	Satisfactory overall performance	Higher returns than home
F1	1985	2004	19	NA	NA	7	NA	5
F2	1989	1992	3	4	3	6	4	6
F3	1993	1997	4	5	5	6	6	6
F4	1987	1995	8	1	5	2	4	2
F5	1969	1984	15	6	6	7	7	7
F6	1986	1994	8	1	6	2	7	4
F7	1956	1989	33	7	7	7	7	6
F8	1987	1993	6	5	5	6	7	5
F9	1968	1992	24	4	5	6	6	5
F10	1970	1998	28	5	5	6	4	5
F11	1994	1996	2	5	6	6	5	7
F12	1992	1993	1	6	6	3	7	5
F13	1986	1998	12	NA	NA	NA	NA	NA
F14	1979	1990	11	6	4	7	6	6
F15	1998	2000	2	3	3	5	5	4
F16	1966	1980	14	6	6	7	7	7

Notes: (1) From column 5 "Satisfactory foreign sales" to column 9 "Higher returns than home", the values in the cells are the seven-point Likert scores with 1 being "strongly disagree" and 7 being "strongly agree". (2) NA = The interviewee was unable or unwilling to provide the information.

From Table 7 it is clear that there is no significant relationship between the timing of internationalisation and firm performance. Both early and late internationalisers could perform well or poorly. We asked the interviewees to explain their answers, and none of them related the firm performance to the timing of internationalisation. The central message from the interviews was that firms benefited from their internationalisation activities as they were generally happy with their overall performance in the foreign markets.

F4 was unhappy with sales of its main products on foreign markets simply because the sales were not as high as the firm should have achieved. “We have not put enough energy in. In addition, the condition is not mature yet, and we still need time”, the founder of F4 commented. Given limited international activities, the founder did not feel that they had learnt a lot from their foreign operations. F6 also felt that their export volume was still small, and hence there were no economies of scale. Although the pre-profit rate was high abroad, returns on total investment in foreign markets were similar to those at home. Both F4 and F6 decided to develop the home market and wanted to be number 1 in China before they could naturally go international.

5. Bounded Entrepreneurship and Internationalisation of Indigenous Chinese Private-owned Firms

In the preceding section, we used existing theories to examine the following six aspects of the internationalisation practices of indigenous Chinese private-owned firms: external conditions for early internationalisation, entrepreneurial cognition of international business opportunities, resource requirements when internationalisation is initiated, psychic distance and selection of foreign markets and entry modes, competitive strategies of firms, and the relationship between the timing of internationalisation and firm performance. We have found that the Chinese experience is unique. Although relevant, the market imperfection and transaction cost approach, the network approach, resource-based views, and competitive strategic theory as individual perspectives can only explain the behaviour of some sample firms only.

Also in the preceding section, we noticed that most unique phenomena, if not all, of the internationalisation processes of indigenous Chinese private firms were closely linked with the special entrepreneurship possessed by the founders of these firms. The interviewees were asked to choose the most important influence on their internationalisation process among government policy, business networks, company resources, domestic competition, entrepreneurship and others, and their answers are summarised in table 8.

Table 8: Most important factors influencing internationalisation process

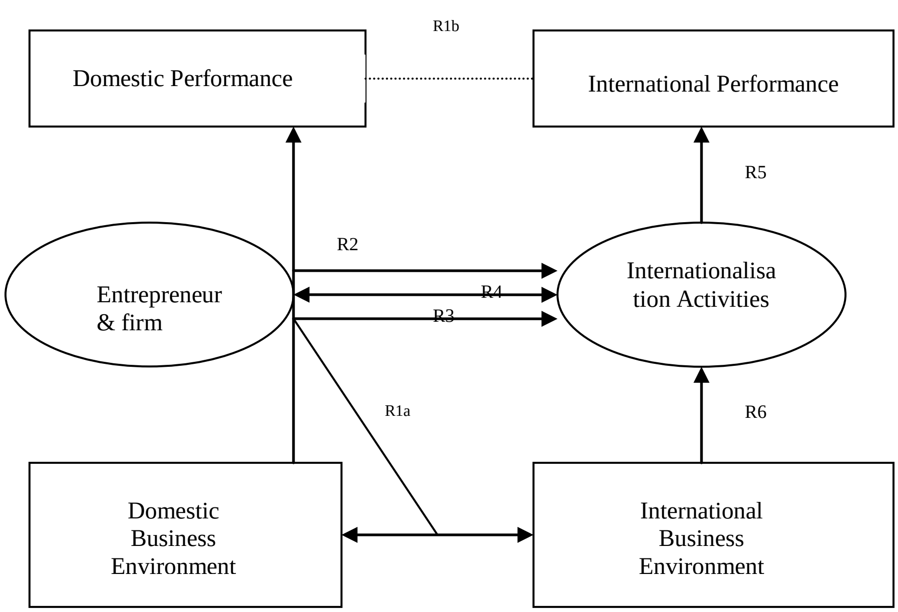
Code Firm	Most important	Second most important	Third most important
F1	Company resources	Domestic competition	-
F2	Entrepreneurship	-	-
F3	Entrepreneurship	Business networks (local supply chain)	Luck
F4	Know the world and obtain opportunities	-	-
F5	Entrepreneurship	-	-
F6	Entrepreneurship	Company resources	Business networks
F7	Entrepreneurship	-	-
F8	Entrepreneurship	-	-
F9	Domestic competition	Government policy	Entrepreneurship
F10	Entrepreneurship	Government policy	Market conditions
F11	Profit seeking	Government policy	-
F12	Government policy	Entrepreneurship	-
F13	Entrepreneurship	-	-
F14	Entrepreneurship	-	-

F15	Government policy	Entrepreneurship	-
F16	Entrepreneurship	International competition	-

As can be seen, ten out of sixteen sample firms regarded entrepreneurship as the most important, while the other two saw it as the second most important factor influencing their internationalisation process. In addition, opportunity or profit seeking as stated by F4 and F11 were also closely related to entrepreneurship. There is not any other single influence which was comparable to entrepreneurship in explaining the Chinese experience.

It is not novel to apply entrepreneurship to firm internationalisation. However, it is equally clear that “normal” entrepreneurship embedded in and prevailing on a developed market economy is unable to provide a satisfactory explanation of the Chinese experience. The entrepreneurship possessed by the founders of indigenous Chinese private-owned firms is very much rationally bounded, and this provides a powerful explanation of the unique characteristics of the internationalisation activities of these firms. Buckley (2002) calls for informing and building on the strengths of existing internationalisation theory by importing entrepreneurship theory. This advice is quite consistent with the Chinese experience. Given that other influences such as resources and networks can also be relevant explanations, Jones and Coviello (2005) suggest the integration of multiple theoretical perspectives in a manner that is both pluralistic and holistic. Following their advice, we incorporate our bounded entrepreneurship explanation into a more general framework of entrepreneurship which builds on existing theories and is sufficiently flexible to accommodate a range of conditions influencing a firm’s internationalisation decisions as Figure 1 below.

Figure 1: Entrepreneurship & Firm Internationalisation



Corresponding to the discussions in the preceding sections, our model can be summarised by the six relationships. We start with R1, the relationship between external conditions and early internationalisation. From P1, we understand that the more closely linked and homogenised the domestic and international business environments, the earlier the entrepreneur will initiate firm internationalisation (R1a). It follows that the more closely linked and homogenised the domestic and international business environments, the more convergent the performance of the domestic operations and their counterparts on the international market (R1b).

From section 4.1 we know that the Chinese evidence does not seem to support this relationship. We do not think that the relationship is incorrect. Rather, we feel that the result is caused by bounded entrepreneurship. Because of their limited education, experience and institutional barriers, the founders were unable to correctly recognise the exact degree of market integration. Even if they were able to do so, they may not be able or willing to act accordingly due to various other considerations. For instance, even if there is a high degree of homogeneity between the domestic and foreign markets, the founders may well use their limited resources to concentrate on the domestic market in the first instance.

From the literature review, we obtained P2, i.e. the choice between focusing on domestic and international business is determined by entrepreneurial cognition of relative advantages and disadvantages of internationalisation, which is in turn influenced by the entrepreneur's education, experience and environmental conditions. Because of limited education and hence limited knowledge about foreign markets and because of the relatively large domestic market, indigenous Chinese entrepreneurs tended to start their businesses in the home market. This result is consistent with the sociological view that entrepreneurs' cognitive process and behaviour are shaped by their business environment. This sociologist view is now incorporated into Figure 1 as R2.

From P3 (PTI) and P3 (INV), experiential knowledge or pre-firm internationalisation experience is required for initiating internationalisation. In addition, networks are important for small high-tech firms in their initial steps abroad, the subsequent entry of new markets, and shortening or skipping stages of internationalisation. Although bounded by the lack of experiential knowledge or pre-firm internationalisation experience and networks, many founders of indigenous Chinese entrepreneurs managed to obtain knowledge about foreign opportunities via other means in their business environment, such as attending exhibitions. Different from the PTI and INV theory, our R3 argues that while they are very helpful, experiential knowledge or pre-firm internationalisation experience and networks are not the necessary conditions for entrepreneurs to initiate their internationalisation process, whether at an early or a late stage.

R4 in Figure 1 shows a two-way relationship between the firm and selection of foreign markets and entry modes. This is different from the PTI and INV theories which discuss whether a firm follows an incremental pattern or can shorten or skip stages of one-way (outward-oriented) international business activities given the psychic distance. While firms can follow the outward internationalisation patterns described by the PTI and INV theory, they can also be engaged in inward-oriented internationalisation activities to enhance their knowledge and resources on the home market before initiating their outward internationalisation process. This inward part of the internationalisation process is particularly useful for these firms with bounded technological and managerial knowledge.

From the literature review, P5 (PTI) is that knowledge is required in the internationalisation process to keep the firm in step with its business environment. The knowledge here is mainly the information about foreign markets and operations. P5 (INV) is that knowledge is required in the internationalisation process for the firm to adopt a differentiation or cost leadership strategy. The knowledge in the INV theory is mainly technological knowledge. Although focusing on different aspects, the two definitions of knowledge can be complementary to each other. We can develop our technological knowledge to enhance differentiation or cost leadership to position the firm favourably on a foreign market. However, firms can adopt other competitive strategies according to the firm's own strengths and weaknesses and the market conditions. For instance, a firm with limited technological knowledge may purse a combined strategy of cost efficiency and differentiation as the indigenous Chinese private-owned firms do. Following this line of thinking, our R5 is that, to be competitive on the international market, the firm needs to choose a suitable strategy to keep itself in step with the shifting international environment.

R6 in Figure 1 is concerned with the relationship between the timing of internationalisation and firm performance. We feel that the performance of a firm is influenced by various factors, both internal and external. Put another way, the international business environment may or may not influence the survival or performance of early and rapid internationalisers and late and incremental internationalisers in different ways. Perhaps the best way for achieving good performance is to consistently enact strategic changes to remain in harmony with external conditions. This is what is discussed in R5.

7. Conclusions

This paper presents a comparative case study of the internationalisation processes of sixteen indigenous Chinese private-owned firms. It has developed six (pairs of) major propositions from the existing literature, which have then been constantly compared with the cases. Based on this, the argument of bounded entrepreneurship is incorporated into a more flexible framework of entrepreneurship to explain the unique internationalisation patterns and competitive positions of these firms.

Embedded in a transitional and emerging country, indigenous Chinese entrepreneurs are bounded by their low education and experience and by unfavourable institutional arrangements. They have limited technological, managerial and lingual knowledge. Thus, (1) they have limited rationality in assessing the degree of integration and homogeneity of the domestic and foreign markets; and (2) they have bounded entrepreneurial cognition of international business opportunities and hence tended to start their businesses in the home market. (3) Given the lack of business networks and experiential knowledge about foreign markets and operations, they either "waited for windfall" or strove to obtain the information by other means such as attending exhibitions. (4) Given the bounded entrepreneurship, some of them carried out inward-oriented internationalisation activities to learn technological and managerial knowledge before they started outward-oriented activities. (5) Given the bounded technological knowledge, they pursed a combined strategy of differentiation and cost leadership. (6) Finally, the timing of internationalisation alone may not be sufficient to interpret firm performance as the latter may be influenced by many other factors.

In our plural and flexible framework, we have incorporated the market imperfection and transaction cost approach, the network approach, resource-based views, and competitive strategic theory, each of which is useful but is insufficient to provide an overall explanation.

Although this study is based on as many as sixteen in-depth case studies, the validity of the entrepreneurship involved can be better confirmed by a relatively larger scale of questionnaire. Before the survey can be conducted, constructs or variables for the six relationships need to be developed.

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